

SENATE BILL REPORT

SHB 1566

As Reported By Senate Committee On:
Ways & Means, March 15, 2007

Title: An act relating to modifying the rural county tax credit provided in chapter 82.62 RCW.

Brief Description: Modifying the rural county tax credit.

Sponsors: House Committee on Finance (originally sponsored by Representatives VanDeWege, Ericks, McIntire, Ericksen, Ross, Warnick, Condotta, Kessler and McCune; by request of Department of Revenue).

Brief History: Passed House: 3/08/07, 94-2.

Committee Activity: Ways & Means: 3/15/07 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Fairley, Hatfield, Hobbs, Honeyford, Keiser, Kohl-Welles, Oemig, Parlette, Rasmussen, Regala, Rockefeller, Schoesler and Tom.

Staff: Dianne Criswell (786-7433)

Background: The business & occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state with no deductions for the costs of doing business.

A credit against B&O tax is available for manufacturing, research and development, or computer service firms that create new jobs in rural counties or community empowerment zones (CEZ). Rural counties are defined as those with an average population density of less than 100 persons per square mile. There are currently CEZ areas in Bremerton, Seattle/King County, Spokane, Tacoma, and Yakima.

The amount of the B&O tax credit is based on wages and benefits paid for new employment positions. The B&O credit is \$2,000 for new positions with annual benefits and wages less than or equal to \$40,000. The credit is \$4,000 for new positions with annual wages and benefits of more than \$40,000. Employment positions must be full-time to qualify.

The B&O tax credit for job creation is based on job growth. To qualify for the credit, the firm must increase its total employment in an eligible area by at least 15 percent. The growth in

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jobs is measured by the percentage increase in jobs over the base year, which is the previous calendar year. Businesses that create jobs in the early part of the calendar year are more likely to qualify for credits than businesses creating jobs late in the year. An application for the B&O credit must be made prior to hiring employees for new positions.

The Department of Revenue keeps a running total of B&O tax credits for job creation allowed each fiscal year. The department must disallow any credit that would cause the total impact to exceed \$7.5 million for any fiscal year. Businesses may carry disallowed credits over to the next fiscal year if the total B&O credits do not exceed the \$7.5 million for the next fiscal year at the time the credit is claimed. Credits may not be used against taxes that have not yet been paid.

Summary of Substitute Bill: The base year is changed from a calendar year to the previous four calendar quarters. The definition of a "qualified employment position" is expanded to include positions that are temporarily vacant or seasonal. Employment positions are allowed to continue to qualify for credit purposes if they are vacant for no more than 120 days in the four-quarter period, as long as the business is training or actively recruiting new employees during the vacancy. A business is permitted to apply for the tax credits within 90 days after creating and filling the new employment positions.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on January 1, 2008.

Staff Summary of Public Testimony (on companion SB 5573): PRO: This bill removes the technical impediments in current law and allows people who could have qualified to benefit from the tax credit.

Persons Testifying: PRO: Senator Hatfield, prime sponsor; Gil Brewer, Department of Revenue.